

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY BANGKOK PRIORITY

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E.O. 11652: GDS

TAGS: ETRD, TH

SUBJECT: DELINQUENT COTTON CONTRACTS

REF: (A) BANGKOK 20105; (B) 19016

1. DEPARTMENT CONCERNED BY EMBASSY'S COMMENT CONTAINED PARA 5, REF. (A), QUOTE TRUST SHIPPERS WILL MAKE RENEWED EFFORTS OFFER THAI MILLS BETTER TERMS UNQUOTE. U.S. SHIPPERS HAVE VALID CONTRACTS WITH THAI MILLS, AND THE ONUS TO RESOLVE CURRENT DIFFICULTIES SHOULD REST WITH THAIS AND NOT WITH U.S. SHIPPERS. WIDESPREAD RE-NEGOTIATION OF THESE CONTRACTS WILL MEAN VERY LARGE FINANCIAL LOSSES BY U.S. SHIPPERS OR U.S. FARMERS HOLDING FORWARD CONTRACTS. IN ADDITION, THE MARKET PRICE OF COTTON WILL CERTAINLY FALL BELOW U.S. PRODUCTION COSTS AND FARMERS WITHOUT CONTRACTS WILL BE FACED WITH EITHER SELLING THEIR COTTON AT A LOSS OR INCURRING HEAVY CARRYING CHARGES.

2. THAI MILLS, AND MILLS ELSEWHERE, MADE SERIOUS, ALTHOUGH UNDERSTANDABLE, ERRORS OF JUDGEMENT WHEN THEY CONTRACTED

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FOR HIGH PRICED COTTON. THAI MILLS ARE NOW ATTEMPTING TO

SHIFT THE BURDEN OF THOSE ERRORS TO U.S. COTTON PRODUCERS. THIS SITUATION SHOULD BE KEPT IN CONTEXT: PRICES ROSE AFTER FORWARD CONTRACTING IN THE PAST TWO YEARS AND ILLS, THAI MILLS AMONG THEM, MADE WINDFALL PROFITS FROM U.S. COTTON CONTRACTS. YOU SHOULD ALSO BE AWARE THAT U.S.

TEXTILE MILLS FACE THE SAME PROBLEMS AS THEIR THAI COUNTERPARTS WITHOUT THE OPTION OF DEFAULTING ON THEIR CONTRACTS.

3. WE ARE WELL AWARE, AS ARE U.S. SHIPPERS, THAT OFFERING THAI MILLS BETTER TERMS WILL EASE THE PRESENT PROBLEM. HOWEVER, ASIDE FROM THE HIGH COST OF SUCH A SOLUTION AND ITS EFFECT ON U.S. BALANCE OF PAYMENTS, U.S. SHIPPERS HAVE NO RPT. NO GUARANTEE THAT NEW CONTRACTUAL ARRANGEMENTS WILL BE HONORED. RENEGOTIATION OF CONTRACTS MAY EVENTUALLY BE NECESSARY, BUT THIS IS A LAST DITCH SOLUTION, UNSATISFACTORY AT BEST. THIS IS NOT RPT. NOT A SOLUTION WHICH THE EMBASSY SHOULD PUT FORWARD AT PRESENT.

4. REF. (B) REPORTS THAT SUTHEE INDICATED QUOTE THERE IS CONSIDERABLE DISCUSSION TO POSTPONE SHIPMENTS AND RE-NEGOTIATE CONTRACTS. END QUOTE. WHILE FACTUALLY ACCURATE, WE BELIEVE THIS FORMULATION IS AT BEST MISLEADING SINCE IT IMPLIES THAT U.S. SHIPPERS HAVE PROPOSED OR ACCEPTED EITHER POSTPONEMENT WITHOUT COMPENSATION OR RENEGOTIATION OF CONTRACTS AS A BASIS FOR DISCUSSIONS. SHIPPERS HERE TELL US THAT THAI MILL REPRESENTATIVES ARE COUNTERING THE SHIPPERS' REQUESTS FOR CONTRACT COMPLIANCE WITH DEMANDS FOR RENEGOTIATION. WHILE WE CANNOT BE SURE THERE HAVE BEEN NO CONTRACT ADJUSTMENTS WHICH CEDE BETTER TERMS TO THAI MILLS, COTTON SHIPPERS HAVE MAINTAINED A SURPRISINGLY SOLID FRONT. PARTIAL EXPLANATION IS THAT A NUMBER OF MEDIUM AND SMALL SHIPPERS WILL FACE BANKRUPTCY IF CONTRACT DEFAULTING OR RENEGOTIATION OCCURS.

5. IN ANSWER TO EMBASSY'S INQUIRY CONCERNING CCC CREDIT TERMS, WE CANNOT DETERMINE AVAILABILITY OR LENGTH LOAN PERIOD UNTIL AFTER REQUEST FOR CCC CREDIT HAS BEEN MADE.
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AT PRESENT JUNCTURE, WE ARE SKEPTICAL THAT ADDITIONAL CCC CREDITS WILL PROVIDE ENOUGH INCENTIVE TO PERSUADE MILLS TO OPEN L/C'S.

6. SHIPPER'S REPRESENTATIVE IN BANGKOK HAS REPORTED TO HIS HOME OFFICE THAT THAI MILLS HAVE REQUESTED RTG CONDONE COTTON CONTRACT DEFAULTING AND THAT RTG HAS ACCEDED. REQUEST EMBASSY INVESTIGATE WHAT MAY BE SPURIOUS

INFORMATION AND REPORT FINDINGS. KISSINGER

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